



## Paper Addresses Why Different Accounting Standards Apply to Government

**March 23, 2006 (PLANSponsor.com) – The Governmental Accounting Standards Board (GASB) has issued a white paper addressing the reason state and local governments are held to different accounting and financial reporting standards than businesses.**

The paper notes that governments differ from for-profit businesses in many ways: purpose, process of generating revenue, stakeholders, budgetary obligations, and propensity for longevity. For these reasons, the needs of users of financial reports for governments differ from those of users of financial reports of businesses.

Because governments obtain resources primarily from the involuntary payment of taxes and taxes paid by an individual taxpayer often bear little direct relationship to the services received by that taxpayer, the paper says, taxpayers collectively focus on assessing the value received from the resources they provide to government. "Governmental accounting and financial reporting standards aim to address [the] need for public accountability information by helping stakeholders assess how public resources are acquired and used, whether current resources were sufficient to meet current service costs or whether some costs were shifted to future taxpayers, and whether the government's ability to provide services improved or deteriorated from the previous year," the paper explains.

In addition, the paper points out that since governments do not operate in a competitive marketplace, face virtually no threat of liquidation, and do not have equity owners, information on fair values of capital assets is of limited value and measures of net income and earnings per share have no meaning to users of governmental financial reports. While creditors of both businesses and governments are interested in information on the ability to repay debt, government creditors focus more on information regarding the government's ongoing ability to raise taxes and the costs of activities that could compete for those resources, rather than on information about how earnings are generated.

Addressing the differences between governments and businesses, "...the GASB's financial reporting objectives consider public accountability to be the cornerstone on which all other financial reporting objectives should be built," according to the paper. GASB standards that address the differences in financial reporting include:

- The measurement and recognition of certain types of revenues (for example, taxes and grants),
- The view that capital assets provide services to citizens rather than contribute to future cash flows,
- The use of fund accounting and budgetary reporting to meet public accountability needs,
- The use of accountability principles rather than equity control to define the financial reporting entity, and
- The treatment of pensions and other post-employment benefits (OPEB) to allocate cost of services equitably to applicable periods.

Related to pensions and OPEB, financial reporting standards for both governments and business enterprises are similar in that they are based on the concept that these benefits are deferred compensation for employee services and should be accounted for in accrual-basis statements as the benefits are earned, rather than when paid, the paper said. Both Financial Accounting Standards Board (FASB) and GASB standards also currently include provisions for deferral and amortization for past service costs. Other than that, though, the measures and presentations of these benefits for governments and private businesses are different.

The focus of business accounting for pensions and OPEB generally appears to be moving toward the measurement of the fair value of pensions or OPEB assets and liabilities, the GASB notes in its report, while the accounting approach for governments ties the accounting with the actuarial funding characteristics of public pension plans. The GASB standards for pension and OPEB accounting allocate expenses to periods in a way that charges each

period a level percentage of payroll for normal cost. "This method equitably spreads the burden of an ongoing benefit program among different generations of taxpayers," the paper said.

The white paper, "Why Governmental Accounting and Financial Reporting Is—and Should Be—Different," can be obtained [here](#).

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